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ABSTRACT

This report sought to assess whether campuses of the State University of New York (SUNY) have established adequate controls for safeguarding cash collections at peripheral locations. An audit of 33 selected peripheral locations, such as libraries, intercollegiate athletics, telecommunications, and student advisement, was conducted between April 1992 and December 1993. Attention was focused on those operations that were identified through a preliminary survey as having the greatest probability for needing improvement. The audit found that none of the 33 locations had established all of the basic controls necessary for safeguarding cash collections, as mandated by state regulations. At 27 locations cash handling duties were not adequately segregated from the duties of maintaining cash accounting records, while at 23 locations no independent reconciliation of daily cash collections was made to cash receipts records. At 21 locations, checks were not restrictively endorsed upon receipt to ensure that they would not be negotiated to inappropriate parties. The report recommends that campuses consider an evaluation of the overall peripheral location cash collection risk exposure and the development and issuance of necessary directives to correct cash control weaknesses. Two appendixes list the major contributors to the report and the comments of SUNY officials. (MDM)

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State of New York
Office of the State Comptroller

Division of Management Audit

Report 94-S-27

Dr. Joseph C. Burke
Interim Chancellor
State University of New York
University Plaza
Albany, New York 12246

Dear Dr. Burke:

The following is our report on the State University of New York's internal controls over cash collections at selected campus peripheral cash collection locations.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law.

This report was prepared under the direction of Frank J. Houston, Audit Director. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit

August 10, 1994

Executive Summary

State University of New York - Internal Controls Over Cash Collections at Selected Campus Peripheral Locations

Scope of Audit

The State University of New York (SUNY) includes 29 State-operated campuses and is one of the largest higher education systems in the nation. A 16-member Board of Trustees sets SUNY policy, while a Central Administration Unit provides direction and leadership for the SUNY system. Each campus is responsible for implementing an internal control system to protect campus assets.

SUNY campuses collect revenues in excess of $1 billion annually. Most of this revenue is for student tuition and room and board charges and is collected at campus central sites, such as the Bursar's Office or the Student Accounts Office. However, a total of about $89 million is collected annually at campus peripheral locations. These collections generally cover charges for such items as telecommunications, library fees, parking permits and campus event ticket sales.

The State Comptroller's User Procedure Manual (Manual) provides basic guidelines and internal control standards for State agencies to establish and maintain controls over cash. Cash is an asset that can be easily misdirected or stolen and, therefore, is considered to have a high inherent control risk. An effective system of internal control diminishes this risk, and provides reasonable assurance that all cash which should be received is actually received and is promptly recorded and deposited. In addition, the 1987 New York State Governmental Accountability, Audit and Internal Control Act (Internal Control Act) requires that all State agencies, including SUNY, establish an internal control review program designed to identify internal control weaknesses and to determine actions needed to correct these weaknesses. All agencies must annually certify their compliance with the Internal Control Act to the Division of the Budget.

Our audit addressed the following question relative to the internal controls over cash collections at 33 selected peripheral locations on seven SUNY campuses for the period April 1, 1992 through December 10, 1993:

- Have the campuses established controls necessary for adequately safeguarding cash collections at peripheral locations?

Audit Observations and Conclusions

We found that none of the 33 peripheral locations we visited established all the basic controls necessary for safeguarding cash collections. Consequently, to varying degrees the cash at each of the peripheral locations is now subject to some degree of avoidable risk. While we did not detect any instances of fraud, theft or misuse of funds, the absence of controls increases risk and makes detection of such incidents difficult.

Some of the observations we made include:

- At 27 locations, with $7.7 million of estimated annual revenue, cash handling duties were not adequately segregated from the duties of maintaining cash accounting records.

- At 23 locations, with $6.2 million of estimated annual revenue, no independent reconciliation of daily cash collections was made to cash receipt records. Generally, the same staff who performed cash reconciliations also had other cash-related duties.

- At 21 locations, checks were not restrictively endorsed upon receipt to ensure that these instruments would not be negotiated to inappropriate parties.

We also found that campuses were not treating peripheral cash collection locations as assessable units for internal control purposes. Moreover, internal control training programs for staff had not been completed at several locations we visited. We believe that these conditions may have contributed to the problems we found with the peripheral location cash collection activities. We also found that our prior audits, as well as those of SUNY internal audit staff, identified similar weaknesses associated with various cash collection locations. The continuance of the same type of weaknesses over cash collection activities suggests that SUNY Central Administration needs to take a more active role with these campuses to ensure compliance with Manual guidelines and the provisions of the Internal Control Act.

We also believe that the extent of the control weaknesses we found warrants SUNY Central Administration's evaluation of the risk exposure at peripheral cash collection locations throughout the SUNY system. Based upon this evaluation, SUNY should take action as necessary, to ensure that all campuses strengthen cash controls.

Comments of SUNY Officials

SUNY officials agree with our recommendations and indicate steps are being taken to implement them.

Contents

Introduction	Background	1
	Audit Scope, Objectives and Methodology	2
	Response of SUNY Officials to Audit	2
Adequacy of Internal Controls		5
Exhibit A	SUNY - Summary of Cash Control Weaknesses at Selected Peripheral Locations	
Appendix A	Major Contributors to This Report	
Appendix B	Comments of SUNY Officials	

Introduction

Background

The State University of New York (SUNY) is one of the largest higher education systems in the nation. Its teaching, public service and research mission is conducted by 29 State-operated campuses and by five State-funded colleges located at Cornell and Alfred Universities.

A 16-member Board of Trustees sets SUNY policy and a Central Administration Unit provides direction and leadership for the SUNY system. Each campus manages all aspects of campus operations, including implementation of internal controls that safeguard assets and ensure the accuracy and integrity of financial records.

Each campus collects revenues such as tuition, room and board, and other student charges. For the 12-month period ended June 30, 1993, SUNY reported that campus revenue collections totaled in excess of $1 billion. The collection of most revenues takes place at campus central locations such as the Student Accounts Office or the Bursar's Office. However, cash is also collected at various other campus locations; the number of these peripheral locations varies among the campuses depending on the needs of individual campus operations. These collections are typically for such items as parking fees and permits, library fines and fees, telecommunication charges and ticket sales for campus events. SUNY reports that for the 12-month period ended June 30, 1993, total cash collections from peripheral locations were about $89 million.

The State Comptroller's User Procedure Manual provides basic guidelines and internal control standards for State agencies, such as SUNY campuses, to establish and maintain controls over cash. In addition, the 1987 Governmental Accountability, Audit and Internal Control Act (Internal Control Act) specifies that internal control training, risk assessment and an internal control review program, including corrective action plans, are necessary elements of an effective system of internal control.

Audit Scope, Objectives and Methodology

We audited the internal controls SUNY campuses maintain over cash collections at selected peripheral locations for the period April 1, 1992 through December 10, 1993. The objective of our performance audit was to determine whether the campuses we visited have established the necessary controls over cash collections at peripheral locations. To accomplish this objective, we visited 33 selected peripheral cash collection locations at seven SUNY campuses: Albany, Alfred, Binghamton, Brockport, Farmingdale, Oswego and Plattsburgh. These locations have total estimated annual revenues of $9.6 million. At each campus, we reviewed control procedures, interviewed management and staff, and examined relevant transactions and records. We also observed and tested operations at selected peripheral cash collection locations.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of SUNY which are included within our audit scope. Further, these standards require that we understand SUNY's internal control structure and its compliance with those laws, rules and regulations that are relevant to SUNY's operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions, and recommendations.

We use a risk-based approach to select activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little effort is devoted to reviewing operations that may be relatively efficient and effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of SUNY Officials to Audit

A draft copy of this report was provided to SUNY officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York shall report to the Governor, the State Comptroller, and the leaders

of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Adequacy of Internal Controls

An effective system of internal control provides reasonable assurance that all cash which should be received is actually received and is promptly recorded and deposited. Since cash is an asset that can be easily misdirected or stolen, Section 3.0200 of the State Comptroller's User Procedure Manual (Manual) provides basic guidelines and internal control standards for State agencies to establish and maintain controls over checks, cash or money orders. Generally, these controls are not costly to implement, and each control is important in ensuring that cash is not stolen. Consistent with the Manual's specifications, campus management should provide staff at each peripheral cash collection location with written procedures that describe the major steps necessary in the cash control process. Management should inform this staff of their responsibility for the safekeeping of cash, and ensure they implement the following basic controls:

- Use sequentially, press-numbered receipt forms to establish accountability for each cash collection transaction.

- Segregate the duties of handling cash from the duties of maintaining cash accounting records. This segregation helps to ensure that no one person exercises so much control over cash transactions that cash is at risk.

- Assign the custody of financial stationery and the control of inventory records to employees who are independent of the cashiering function.

- Require that checks be restrictively endorsed when received to prevent their negotiation to inappropriate parties.

- Require that, at prescribed intervals - daily if feasible, but no less than once each week - moneys received at cash collection locations be turned over for deposit. The timely deposit of funds reduces the likelihood of loss or theft of the funds.

- Perform an independent reconciliation of cash receipts to cash deposits and accounting records.

- Prominently display a sign advising individuals making payments to request a receipt. There is less likelihood of misappropriation of remittances when customers ask cashiers for receipts.

We visited 33 selected peripheral collection locations at seven SUNY campuses to determine the extent to which the above cash controls were implemented. We found that none of the peripheral locations established all the basic controls necessary for safeguarding cash collections. Consequently, to varying degrees, the cash collected at the locations is now subject to some degree of avoidable risk. (Exhibit A summarizes the status of controls for each of the 33 locations we reviewed.)

Some of our observations include:

- At 10 locations, staff did not use sequential, press-numbered receipt forms or other means of control to establish accountability over funds received. These locations had estimated annual revenues totaling over $2.2 million, including estimated annual collections of $1.2 million for telecommunication services at Oswego.

- At 27 locations, campus officials did not adequately segregate cash handling and financial recordkeeping duties. This increases the risk that cash thefts would not be detected. The 27 locations with this weakness had estimated annual revenues totaling over $7.7 million. One Alfred peripheral location reporting about $120,000 in annual collections, uses the same employee to handle cash, record receipts, prepare bank deposits and reconcile account information.

- At 23 locations, there were no independent reconciliations of cash collections to cash receipts records to detect any cash shortages on a timely basis. These locations had estimated annual revenues totaling over $6.2 million.

- At 21 locations, checks were not restrictively endorsed upon receipt. At one Binghamton location, with about $244,000 of annual collections, checks were endorsed only once a week, increasing the risk that checks could be cashed inappropriately.

- At 11 locations, there was no inventory control over the financial stationery. Seven of these locations did not use campus receipt forms. Rather, they ordered their own receipt forms from local vendors and maintained accountability of their own inventory stock.

We found that, while circumstances and the extent of control implementation varied at the 33 locations, three factors may have contributed to the generally inadequate controls over peripheral cash collections at the campuses we visited: inadequate internal control training; assessments that overlooked a cash collection function; and a lack of corrective action plans. For example, we found that five of the seven campuses have not

implemented an internal control training program. Therefore, staff, including those responsible for cash management at the peripheral locations, may not be aware of the risks to cash assets and the controls necessary to address the risks. In addition, although SUNY Central Administration provided an internal control training handbook to the campuses in October 1992, administrative officials at these five campuses had not yet distributed the material to their employees at the time of our field visits in late 1993.

Three of the seven campuses we visited had not established internal control systems that included corrective action plans, as specified in the Internal Control Act. Another two campuses had partially implemented plans as part of their internal control reviews; however, the plans did not include cash collection activities for operations where cash collection is not a primary function. For example, although the library at the Oswego campus collected over $88,500 in fines and fees annually, cash collection was not included in the campus' assessment of the library's activities. Therefore, campus management may not have been aware of the peripheral location's cash control weaknesses or of the need to formulate corrective action plans to address the weaknesses.

Internal control training, risk assessment and corrective action plans, are control elements required by the Internal Control Act. State agencies, including SUNY campuses, are subject to this legislation and were required to comply with its provisions by April 1, 1989. Agencies, including SUNY, must file an annual certification of continued compliance with the Internal Control Act to the Division of the Budget.

Our prior campus audits, as well as those performed by SUNY's internal audit staff, have identified cash collection control weaknesses similar to those in this report at many of the same campuses. For example, previous audits we performed at Albany, Alfred, Brockport, Oswego and Plattsburgh identified cash control weaknesses like the ones cited in this report. The continuance of the same types of weaknesses in cash collection activities suggests that SUNY Central Administration needs to take a more active role in control implementation to ensure that campuses comply with both Manual cash control guidelines and the Internal Control Act's provisions.

We believe that the weaknesses we found with peripheral cash collection locations may be symptomatic of peripheral cash control weaknesses throughout SUNY campuses. Therefore, SUNY Central Administration should consider an overall evaluation of this risk area and the development of directives for campuses to follow to ensure that all weaknesses are corrected. We recognize that campuses are primarily responsible for

implementing internal controls over their operations; however, we believe that the continuance of systemic weaknesses in a particular area warrants direction and oversight by SUNY Central Administration. Such actions are consistent with SUNY Central Administration's leadership role in the SUNY system.

Recommendations

1. Ensure that the campuses correct the weaknesses detailed in this report and summarized in Exhibit A of this report.

2. Consider an evaluation of the overall peripheral location cash collection risk exposure and the development and issuance of necessary directives for campuses to follow to correct cash control weaknesses.

SUNY
SUMMARY OF CASH CONTROL WEAKNESSES
AT SELECTED PERIPHERAL LOCATIONS

LOCATION	ESTIMATED ANNUAL RECEIPTS	CONTROL WEAKNESSES
ALBANY:		
Parking Management	$ 440,492	4, 6
Bus Services	153,814	3, 4, 6, 7
Library	294,992	6
College Registrar	7,657	2, 3, 6, 8
ALFRED:		
Wellsville	$ 123,218	4, 5
Chemical Testing	69,241	1, 3, 5, 6, 8
Student Advisement	120,967	3, 5, 6, 7, 8
Farm Operation	188,467	3, 5
BINGHAMTON:		
Traffic Office	$ 300,000	3, 5, 6, 8
Telecommunications	1,500,000	3, 5
Anderson Center	400,000	3, 5, 7, 8
Continuing Education	244,163	2, 3, 4, 5, 6
Conference Housing	200,000	3, 5, 7
BROCKPORT:		
Public Safety	$ 405,795	3, 4, 5
Telecommunications	700,352	3
Recreation	180,925	3, 4
Intercol. Athletics	61,718	2, 3, 4, 5, 6, 8
Overseas Program	627,321	3, 4, 8
FARMINGDALE:		
Library	$ 8,000	6, 7, 8
Flower Shop	26,700	3, 5, 6
Dental Clinic	23,300	3, 5, 6, 8
Continuing Education	286,500	2, 3, 5, 6
Placement Center	56,000	2, 3, 5, 6
OSWEGO:		
Telecommunications	$1,220,323	1, 2, 3, 5, 8
Library	88,517	5, 6, 8
Public Safety	462,131	3, 5, 6, 8
Student Advisement	52,615	2, 3, 4, 5, 8
Residential Housing	311,261	2, 3, 4, 5, 6, 7, 8
PLATTSBURGH:		
Registrar	$ 29,750	1, 2, 3, 5, 6, 7
Infirmary	25,000	1, 2, 3, 5, 6
Telecommunications	874,967	6
Field House	34,077	1, 3, 4, 5, 7
Library	71,575	1, 3, 6

Legend of Control Weaknesses:

1. Lacked written cash control procedures.
2. Sequentially, press-numbered receipt forms were not used.
3. Cash duties were not adequately separated.
4. Custody of financial stationery was not independent of cash functions.
5. Cash reconciliations were not performed by an individual independent of the cash functions.
6. Checks were not restrictively endorsed upon receipt.
7. Receipts were not deposited at least once a week.
8. Lacked signs advising individuals to request a receipt.

Exhibit A

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Major Contributors to This Report

Jerry Barber, Audit Manager
Arthur F. Smith, Audit Supervisor
Donald Wilson, Auditor-in-Charge
Richard Gerard, Lead Auditor
Karen Willard, Staff Auditor
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Office of the Vice Chancellor
for Finance and Business

OFFICE OF THE STATE COMPTROLLER
ROBERT H. ATTMORE
DEPUTY COMPTROLLER

JUL 11 1994

GEN. AUDIT &
FINANCIAL REPORTING

July 5, 1994

Mr. Robert H. Attmore
Deputy Comptroller
Office of the State Comptroller
The State Office Building
Albany, New York 12236

Dear Bob:

In accordance with Section 170 of the Executive Law, we are enclosing the comments of State University of New York regarding the Draft Audit Report on the Internal Controls Over Cash Collections at Selected Campus Peripheral Cash Collection Locations, State University of New York (94-S-27).

Sincerely,

Bill

William H. Anslow
Senior Vice Chancellor
for Finance and Management

Enc.

Appendix B

State University of New York Comments

1. The campuses have implemented a significant number of the control procedures necessary to resolve the control issues referenced in Exhibit A. In situations where staffing limitations preclude the campuses from instituting the specified control, the campuses have indicated they will consider alternative procedures.

2. The University believes that strong internal controls over cash collections at remote sites are an important aspect of our overall internal control structure. Therefore, in response to the findings in this audit report, the University Controller's Office is in the process of preparing an internal control bulletin to be distributed University-wide on this subject. The bulletin will identify the major elements of internal control necessary covering remote cash collections, as well as guidance on the manner in which these controls should be put in place and monitored. The University also agrees with the Comptroller's findings that the remote cash collection activities be part of the overall vulnerability assessments performed by campus locations in compliance with the Internal Control Act. The internal control bulletin will also provide guidance in reference to this aspect as well.